SITUATIONAL ANALYSIS IN THE FUNCTION OF DEVELOPING COMPANY COMPETITIVE ADVANTAGE

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ABSTRACT

Competitive advantage is the main goal of a market –oriented company, and the knowledge of environmental factors is the basic condition for its creation. By gaining insight into the structure and development trends of factors of external and internal environment, we create conditions for subsistence, development and creation of competitive advantage. Given the fact that the modern business environment is characterized by a high degree of uncertainty, subsistence and success of the company is primarily determined by the ability of management to create a strategy that, under the given conditions, contribute to achievement of the goals. The information obtained by scanning the external environment and analyses of internal environments are the basis for strategic planning and decision making. The research results in this paper indicate that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. Due to the negative impact of many factors, strategic orientation has been identified as an essential condition for creating a sustainable competitive advantage, companies in Serbia.

Key words: *Strategic Management, Business Environment, Situation Analysis, Competitive Advantage, Company*

JEL Classification: *L10, M11*

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INTRODUCTION

A situational analysis represents scanning and assessment of the current organizational context, the external environment, and the environment within an organization. It includes assessment of internal resources and processes of a company and its activities in the market, the closest environment including demand and competition and many other factors (social, political and legal) which may influence the company's business. By acquiring information about the structure and tendencies shown by external and internal factors it becomes possible to create an effective strategy for achieving competitiveness.

This paper discusses the role and importance of a situational analysis in building competitive advantage of a company. By taking into account the complexity and dynamism of the modern business environment the objective of this paper is to show that management's proactive attitude towards environmental challenges is the basic requisite of survival and development of companies.

Beginning with the objective and the subject of research, the paper puts forward the following hypothesis:

a) In modern business, strategic orientation, or rather, strategic thinking and acting have become the basic factor of survival and development of companies.
b) A situational analysis represents a basis for creating an effective mission, goals and strategy of a company.
c) Volatility and dynamism of environmental factors, especially in the domain of consumers' wants and needs and ever intense competition, impose the need for continuous reexamination of existing and finding new sources of competitive advantage.
d) Because of a high degree of uncertainty of the business environment, the survival and success of companies in Serbia more and more depend on the managerial capacities of their managers, or, the ability to timely detect critical factors of success and create adequate strategic orientation.

The research was conducted by using the basic scientific methods appropriate for this type of work such as analysis, comparison and case study approach.

THE ELEMENTS AND ANALYSIS OF THE ENVIRONMENT

Activities relating to the company's business are carried out under the influence of numerous factors of the external and internal nature. Dependence of the company from its external environment may be explained based on its dependence on resources and information necessary for efficient decision-making. The environment is a place where a company finds its resources, which are after the transformation process returned to the environment in the form of finished products or services. The environment represents a source of information required for strategic decision-making. A situational analysis identifies elements that influence the company's business where future strategic directions are defined based on the results of the analysis.

On the other hand, thanks to high flexibility and innovativeness, it is easier for smaller organizations to change their strategic behavior than for the large ones and they are able to quicker adapt to new market demands.

STRATEGIC MANAGEMENT PROCESS

Strategic management process is a process of analyzing the current situation, formulating appropriate strategies and implementing those strategies, evaluating, modifying or changing them as the need arises. (Brnjas, 2000). Those activities are usually called – situational analysis, strategy formulation, strategy implementation and strategy evaluation.

Given the reasons of its existence, contents and the level it pertains, strategic management may well represent the backbone of a direction that the company will take in a turbulent environment. By including decision-making about the mission, goals, direction and the manner of their achievement, allocation of resources and creating a relevant support system, strategic management represents the main component of the company's vitality.

The main characteristic of strategic management is that it is multidisciplinary. This means that is it not focused on any special area in the organization but includes all its functional areas in their entirety.

Strategic management is the easiest to explain by using the following phases (Coulter, 2010):

- Situational analysis
- Strategy formulation
- Strategy implementation
- Strategy control.

Situational analysis represents an analysis of the external and internal environment in which a company is implementing its mission, vision and goals. The results of the internal and external analysis enable the company to get better Figure about itself and its environment and define the best possible strategy.

Strategy formulation – represents development and selection of appropriate strategy. Strategy formulation includes three levels:

- Strategy at the level of the company (corporate strategy)
- Business strategy (competitive strategy)
- Functional strategy (operational strategy)

Strategy implementation – is a phase when the defined strategies are put in action. It implies allocation of resources in business areas and functions, creating organizational structure and corporate culture, selection of style, motivational mechanisms and performance evaluation, the creation of information system, etc. (Todorović, 2004)

Control (evaluation/assessment) of the strategy - is controlling the manner in which the strategies are being implemented and analysis of the results achieved. If the results of the implementation are not matching the defined goals of an organization the defined strategic solutions need to be changed or the process of their implementation needs to change.

SITUATIONAL ANALYSIS

A situational analysis represents an analysis of the environment in which a company is implementing its mission, vision and goals. Different approaches to classification of the environment can be found in the academic literature. The environment is most frequently classified in the following manner (Erić et al., 2007):

- **According to the quality of effects** the environment is classified as stabile (characterized by abundant chances, few threats, and easily predictable changes) and unfavorable (characterized by a few chances, lots of threats and changes that are difficult to predict).
- **According to the dynamism of factors** the environment is classified as stabile, characterized by small and predictable changes, dynamic, with large but predictable changes, and turbulent with frequent, large and unpredictable changes.
- **According to the ability to control and the degree of influence** the environment may be classified as external, competitive-direct environment and internal that includes factors within the company.

For purpose of theoretical consideration of this phenomenon in the paper, the classification of the environment into the three following segments will be used: **general** environment (indirect), **competitive** (industry-wise, direct and targeted) and **internal** environment.

EXTERNAL ENVIRONMENT ANALYSIS

External environment analysis is a process of scanning and evaluation of the external environment of a company. The purpose of the analysis is to identify threats and chances that the company is facing by analyzing factors of its external environment. **Chances** (opportunities) are positive changes that can help an organization to achieve better business performance. **Threats** are negative changes that can downgrade business performance of an organization. A situational analysis implies carrying out an external environment analysis.

Peter Drucker, a father of modern management, wrote the following: "a winning strategy will require information about events and conditions outside the institution: nonconsumers, technologies other than currently used by the company and its present competitors, markets not currently served and so on" (Coulter, 2010).

There are four very important processes through which we become aware of the environment, the so-called inputs of forecasting (Erić et al., 2007):

- **Environment scanning** (implies watching the external environment of a company to anticipate changes in the environment, warn about future events and trends before the competitors notice them).

- **Environment monitoring** (enables a company to estimate how dramatic are the changes that are brought into its environment by changing trends).
- **Awareness of competition** (helps a company understand its industry and be aware of weaknesses and strengths of its competitors).
- **Environmental forecasting** includes forecast of future changes - direction, intensity and speed of expected changes of key environmental parameters. Forecasting is relevant for defining a successful strategy as it is critical in increasing the certainty of achievement of present decisions the results of which will be visible in the future.

There are different approaches to defining the external environment of the company. Some authors argue that the external environment needs to be divided into general environment of the organization (indirect-father away) and operational environment (more direct, closer). In this paper we will look at two types of the external environment of the company: general and competitive environment.

Elements of general environment – The general environment consists of factors that may have dramatic effects on the strategy of a company. A rule of thumb is that one company has little possibility to anticipate trends and events in the general environment and is even less able to control those (Dess, Lumpkin, Eisner, 2007). Usually, a general environment analysis includes analyzing the following elements of the external environment: demographic segment, socio-cultural, political-legal, technological, economic and global segment.

Elements of the competitive environment – Managers must take into account not only the general environment but also the competitive one (that is sometimes called industrial environment or task environment), specific groups and organizations that affect the company. The nature of competition in the industry, as well as the profitability of a company, is often in direct correlation with unfolding of changes in the competitive environment.

The competitive environment consists of numerous factors which are relevant for the strategy of the company. Those factors include **competitors** (present or prospective), **consumers and suppliers** (Dess, Lumpkin, Eisner, 2007).

- **Competitors** are companies operating in the same industry, selling similar products or services. What makes the difference between business success and failure is whether a company is more successful in meeting the wants and needs of the buyers than its competitors.
- **Consumers** are natural persons buying goods and services in the market not intended for their business activity. The status of a consumer implies free participation in the goods market and a series of other rights provided by the law regulating consumer protection. The basic consumers rights are as follows: meeting the basic needs, security, awareness, choice, etc.
- **Suppliers** are companies providing material, human, financial and informational resources. Key factor that determines the results of the relationship between companies and their suppliers is a degree of their interdependence.

INTERNAL ENVIRONMENT ANALYSIS

An internal environment analysis offers important information about organizational assets, skills and operations – what is good, what is missing or whether there are any shortages. The most important part of this analysis implies assessment of organizational resources, capacities and key competencies. An internal environment analysis is important because it is the only way to identify strengths and weaknesses of an organization and it is crucial for the adoption of good strategic decisions (Dess, Lumpkin, Eisner, 2007).

In the process of identifying internal strengths and weaknesses numerous techniques may be used: "value chain" concept, portfolio analysis, gap analysis, break-even point, life cycle of the organization, etc.

Organizational resources – are assets used by an organization in order to do what it has been established to do. Resources may be financial, physical, human, intangible, and structural-cultural.

- Financial resources include creditworthiness, credit lines, cash reserves and other forms of financial assets.
- Physical resources include material assets like buildings, devices and equipment, raw production materials, office supplies and so on.
- Human resources include experience, knowledge, sound judgment, skills, acquired wisdom, and competence of employees of the organization.
- Structural-cultural resources are corporate history, culture, operating systems, mutual relationships and organizational structure.

Organizational resources are relevant for the capacity building and key competencies of the organization.

Organizational capacities –are inputs used to develop organizational capacities, which represent a series of routines and processes by means of which a company turns inputs into outputs. Organizational routines and processes are regular and predictable activities carried out by members of the organization. Organization, per se, is a complex network of these routines and process which includes a series of activities. Organizational capacities are not only created by gathering resources. Capacities are built when mutual relationships exist among people and relationships between people and other resources.

Key competencies and distinctive changes – All significant capacities contributing to value generation critical for the business of the organization are called ***key competencies.*** Organizational capacities are of the primary importance because they represent a cornerstone of key competencies. Every organization nurtures processes and routines thanks to which it does its business. All key competencies of the organization are the product of all routines and processes. If key competencies are developed they can improve organizational capacities and at the same time contribute to development of distinctive abilities.

CONCEPTS AND TECHNIQUES USED IN ENVIRONMENTAL ANALYSIS

Any good situational analysis requires using specific tools, or, concepts and techniques. By using different analytical instruments a company is analyzing the events in the environment and is making sure that there are no unintended surprises coming from the environment it does business in.

SWOT ANALYSIS

SWOT analysis enables recognizing the positive and negative factors and gives the option of having a timely influence on them. It helps the organization determine its present position, its main strengths and weaknesses, its chances and obstacles to achieve the planned goals in the future.

SWOT analysis is an analytical framework providing relevant information about internal strengths and weaknesses of an organization and about business climate in which a company is pursuing its mission. This analysis is based on the assumption that an organization will achieve the greatest possible success by maximizing its own strengths and chances in the environment and at the same time by minimizing threats and weaknesses, or using internal strengths in the best possible way while using opportunities which present themselves in the environment.

SWOT analysis needs to be done by several people because it requires thinking and more people are smarter than one. The approach to this analysis needs to be impartial, it is impossible that an organization has no weaknesses or that there are no threats it should be aware of.

Beside SWOT analysis there is the so-called **PEST** analysis. PEST is an acronym for **political**, **e**conomic, **s**ocial and **t**echnological factors that may affect planning and the operations of the organization.

PORTER'S FIVE FORCES ANALYSIS

The Porter's Five Forces tool represents the most frequently used analysis in assessing the competitive environment. The model describes the competitive environment through ten basic factors of competition (Dess, Lumpkin, Eisner, 2007).

- Threat of new entrants
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitute products
- Rivalry among existing competitors in the industry.

The basic assumption of the model is that not all industries are equally attractive and therefore do not provide equal opportunity in terms of earnings or acquiring profits. On the basis of analysis of five forces of the industry, managers can decide whether their company should remain in the certain industry or leave it. The model provides a rational basis for increased or reduced engagement of resources. The model also enables easier judgment as to how to improve the competitive position of the company given each of the above mentioned forces.

Threats of new entrants – Concerns the possibility that profits earned by companies which have already established themselves in the industry are reduced because of the arrival of new competitors. The level of danger depends on existing barriers to new entrants and on combined reactions of the competitors. If the barriers to new entrants are high or if a new entrant may anticipate sharp response that will follow by existing competitors, then, the threat of new entrants is small. Such circumstances discourage new competitors. If a new company may start its business with a little investment and to efficiently operate despite of a small volume of operations, then, it will most probably represent a threat.

Bargaining power of buyers – Buyers may threaten the industry by causing the prices to drop, by continuously demanding better quality or better services and by turning the competitors against each other. Such activities reduce profitability.

Bargaining power of suppliers – Suppliers may show their power over members of the industry by threatening to raise prices or reduce the quality of the purchased goods or services. Many suppliers may extract profit out of some companies to such an extent that they are unable to even get return on their investments in raw materials. Factors that make suppliers powerful are the reflection of those forces that make buyers powerful.

Threats of substitute products – Substitutes limit the potential yield in the industry by limiting the level of prices that enable the producers in the industry to earn profit. The more attractive price index, the less likely is that the products in the industry will earn profit.

Rivalry among existing competitors in the industry – Often turns into a race for the best position possible. The companies use tactics – competitive prices, advertising campaigns, introduction of new products, customer services, offering longer warranty periods and so on. Intense rivalry is a result of several intertwined factors: multiple equal competitors, sluggish growth within the industry, high fixed costs or storage costs, undifferentiated products, switching costs, gradual capacity increases, high barriers to exit.

VALUE CHAIN CONCEPT

Through a value chain analysis a company is analyzed as a process of activities undertaken in order to create value. This approach is important for understanding elements which create competitive advantage. In the context of rivalry in the market, value is presented as the amount that buyers are willing to pay for what is offered to them by a company. Value is measured by the total profit which is a reflection of the price that the company's product must be attributed to and the amount of goods or services that the company can sell. A company is profitable if the value it receives exceeds the total costs of creation of a specific product or a service.

Porter described two different categories of activities.

- The first category includes five primary activities: inbound logistics, operations, outbound logistics, marketing and sales and services. All these activities take part in the physical creation of a product of a service as well as in the benefits of the product or the service after the sale.
- The second category includes support activities: procurement, technology development, human resource management and firm infrastructure. Each of them creates added value or take part in creation of value by working together both with the primary and the support activities (Dess, Lumpkin, Eisner, 2007).

In addition to these two techniques there are others that are in use, such as BCG matrix, Ansoff matrix, ADL matrix, etc.

CREATING COMPETITIVE ADVANTAGE

Strategic management implies implementation of strategies that enable an organization to develop and sustain competitive advantage. Competitive advantage is what sets one organization apart from the others. This means that the organization has something that others lack, or that it is better than other organizations in something or that it does something that others are not able to do (Coulter, 2010).

Competitive advantage is a key concept in strategic management necessary for a long-term success and survival of organizations. It takes a lot of hard work and effort to sustain competitive advantage and is getting harder and harder as the days go by. An organization may be either successful or unsuccessful in this. It usually turns out that failure came as a result of the lack of understanding of significant external factors or inability to earn profit from organizational resources and capacities.

APPROACHES IN CREATING COMPETITIVE ADVANTAGE

There are three traditional approaches to understanding competitive advantage and they are as follows (Coulter, 2010):

1. The first approach implies that organizations should analyze the influence of external factors and is called industrial organization view (Industrial organization – I/O).
2. The second – called resource based view (Resource Based View- RBV) – emphasizes the importance of exploiting organizational resources in order to develop and sustain competitive advantage.
3. The third approach is called “guerrilla” view of competitive advantage because it advocates the opinion that competitive advantage is temporary and that it may be gained by independent attack on the competitive market by hit-and-run offensives (Coulter, 2010).

Industrial Organization View - (I/O) is focused on strengths of the industry, the competitive environment of a company or how these components influence competitive advantage. For most of what we know about I/O approach we may thank Michael Porter. According to him there are five “industrial forces” that determine average profitability in the industry which, in exchange, influences profitability of companies within the given industry. With this approach he wants to stress the importance of the “right” choice of industrial activities and the most suitable positions within the industry. Supporters of the I/O approach argue that acquiring competitive advantage means analyzing external forces and making strategic decisions based on what is happening in the environment. When it comes to I/O approach strategic analysis is externally oriented. Even though I/O approach greatly helps us understand the requirements of strategic management, according to critics, it does not provide a complete insight into the situation.

Resource Based View - (RBV – resource-based view) begins from the assumption that company’s resources are the most important requisite for acquiring competitive advantage. According to RBV strategic management implies developing and using unique organizational resources and competencies. The resources include all financial, physical, human and intangible assets used by an organization to develop, produce or deliver products and services to its buyers. RBV assumes that resources must be unique in order to be a source of potential competitive advantage.

”Guerrilla” View – The main idea of “guerrilla” approach is that competitive advantage of an organization is temporary, because the environment is characterized by continuous, radical and revolutionary changes. Disruptions in the sphere of technologies, market instability and other types of unpredictable changes may greatly impede the job of strategic managers who seek to create sustainable competitive advantage.

GENERIC COMPETITIVE STRATEGIES

Today’s business competitive environment is described as **hypercompetiton,** meaning that the situation in the environment is such that there is fierce competition in the market with continuously increasing level of competition. Competition occurs when organizations are fighting or competing to achieve a desired goal or outcome.

There are three approaches in defining competitors of an organization (Coulter, 2010):

- According to industry perspective, competitors are organizations making or selling the same or very similar goods or services. The most intense form of competition is pure competition– a large number of sellers without differentiated products.
- According to another approach, market perspective, competitors are organizations that satisfy the same customers’ need. Intensity of competition according to market perspective depends on how well were the customers’ needs are understood or defined and how well different organizations are able to meet those needs.
- The third and last approach, strategic group concept, is based on the fact that there are groups of firms competing in the industry with similar

strategies, resources and customers. Intensity of competition depends on how effectively each competitor has developed its competitive advantage.

Porter developed a model of five forces and chain value. These tools provide strategic decision-makers important information to choose appropriate competitive strategies. Porter argues that it is that strategy built on competitive advantage of an organization, which according to him, may stem only from one of the two following sources:

- Having lower costs,
- Possessing significant and desirable differences relative to competitors.

Another important factor is the scope of the product – market in which the organization wishes to compete. The basis of competitive strategy is created by combining these factors together (Coulter, 2010):

- Cost-Leadership Strategy,
- Differentiation Strategy,
- Focus Strategy.

ANALYSIS OF THE BUSINESS ENVIRONMENT IN SERBIA

Business environment in Serbia is under the influence of numerous factors that limit development of entrepreneurship. Incentives have been used for years to establish economic balance and create business-friendly environment. The positive tendencies achieved between 2001 and 2007 were interrupted by the global financial crisis. Tools and measures and economic policies, applied in the previous period, resulted in a slow economic recovery of the Serbian economy that wasn’t able to reach the level of development prior to the financial crisis.

BUSINESS ENVIRONMENT INDICATORS IN SERBIA

Macroeconomic instability, lack of investments, complicated legislation and other limitations resulted in low productivity, efficiency and competitiveness of enterprises in Serbia.

The research of the World Bank – Doing Business 2016, shows that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. The World Bank monitors the quality of business environment through ten indicators: starting a business, registering property, dealing with construction permits, enforcing contracts, paying taxes, getting electricity, trading across borders, resolving insolvency, getting credit, protecting minority investors.

According to the latest *Doing Business 2016* (A World Bank Group Flagship Report - Doing business 2016) report out of 189 economies that were included in the analysis Serbia ranked 59 based on the quality of its business environment.

Table 1: Business Environment Indicators

	2015	2016	Change of ranking
Starting a business	62	65	-3
Dealing with construction permits	178	139	+39
Getting electricity	61	63	-2
Registering property	72	73	-1
Getting credit	52	59	-7
Protecting minority investors	81	81	No change
Paying taxes	165	143	+22
Trading across borders	23	23	No change
Enforcing contracts	73	73	No change
Resolving insolvency	49	50	-1

Source: A World Bank Group Flagship Report - Doing business 2016, http://www.doingbusiness.org/

In the latest report the quality of the business environment in Serbia has been viewed more positive than in the previous years but it is still at the low level. The biggest problem, despite the positive tendencies, still exists with dealing with construction permits and paying taxes. In general, the Serbian market is not all too attractive for investors because it takes 272 days and 18 different procedures to obtain a construction permit, and it takes as many as 54 days to register property.

Trends followed by key economic indicators definitely have a negative manifestation on the competitiveness of the Serbian economy. This can be verified by looking at the latest results of the *World Economic Forum (*The *World Economic Forum – WEF).*

According to the WEF's latest report (2014/2015) Serbia ranks 94 out of the total of 144 economies that were included in the research. The Global Competitiveness Index is 3.9 (The Global Competitiveness Report 2014/2015, World Economic Forum). Looking at the economies in the neighborhood: Slovenia (70), Macedonia (63), Montenegro (67), Croatia (77) and Greece (81) ranked better.

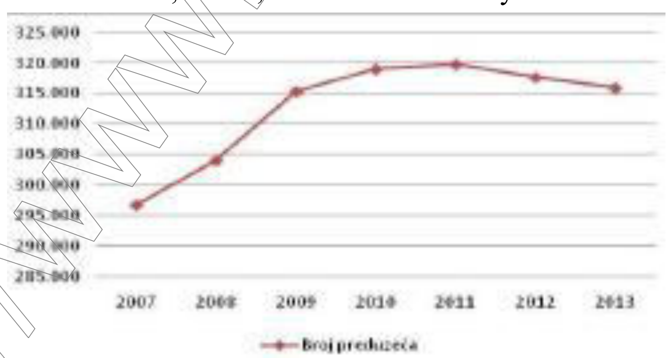
Table 2: Indicators of Competitiveness

Components of the Global Competitiveness index - pillars of competitiveness		2014/2015	
		Rank (up to 144)	Score (1-7)
Global Competitiveness Index		94	3,9
1	Institutions	122	3,2
2	Infrastructure	77	3,9
3	Macroeconomic Stability	129	3,5
4	Health and Primary Education	68	5,8
5	Higher Education and Training	74	4,3
6	Goods Market Efficiency	128	3,8
7	Labor Market Efficiency	119	3.7
8	Financial Market Sophistication	109	3,5
9	Technological Readiness	49	4,4
10	Market Size	71	3,7
11	Business Sophistication	132	3,2
12	Innovation	108	2,9

Source: The Global Competitiveness Report 2014–2015, World Economic Forum, www.weforum.org/gcr

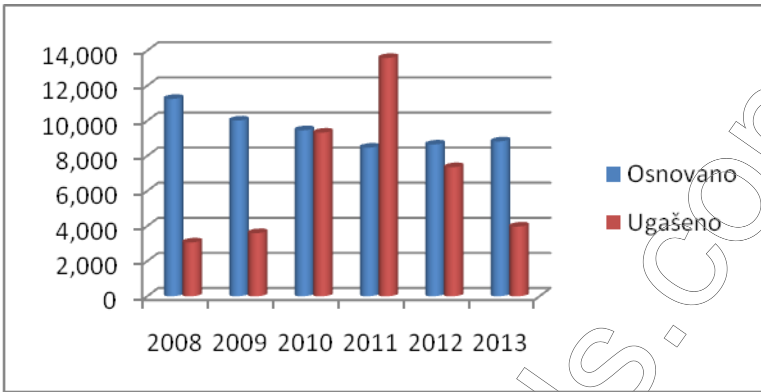
According to the report of the World Economic Forum the most problematic four factors for doing business in Serbia are: inefficient state bureaucracy, access to financing, corruption, political instability (The Global Competitiveness Report 2014/2015, World Economic Forum).

The analysis of the business environment can be followed based on the trends in the number of businesses, that is, the number of newly established businesses.



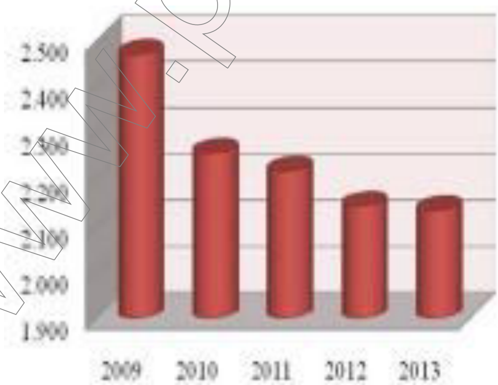
Graph 1: Total Number of Companies in Serbia (2007-2013)
Source: Data of the Report on Small and Medium-Sized Enterprises for 2009 and 201, http://narr.gov.rs/

From 2011 onwards, disrupted entrepreneurial climate resulted in the decrease of the total number of enterprises in Serbia. If the focus of the analysis is put on the most important segment of economy, in other words, small and medium enterprises and entrepreneurs one may find that the ratio between the number of newly established and closed down enterprises (2.2:1) was better than in 2012.



Graph 2: Number of Newly Established and Closed Down Enterprises
Source: Data from the Report for Small and Medium-Sized Enterprises for 2013, http://narr.gov.rs/

Notwithstanding these positive tendencies, the fact that the number of businesses that fall under the category of medium-sized enterprises is dropping year in year out is the reason for concern. Those are the enterprises which should be logical drivers of economic development. Decreasing number of medium enterprises may be explained by adverse influences of the environment, that is, numerous threats that disable development and growth of business, or transformation of small organizations into larger systems.



Graph 3: Number of Medium-Sized Enterprises in Serbia
Source: Data from the Report on small and Medium-Sized Enterprises for 2009, 2010, 2011.., 2013, http://narr.gov.rs/

The results of the business survey of “1.000 enterprises” for 2015 point that the business environment between 2011 and 2015 significantly recovered, but only in some areas. Among the areas which performed better in 2015 are: construction permitting, enforcement procedure and business licensing (Survey of 1.000

enterprises, 2015, the Chamber of Commerce of Serbia).This year's survey was conducted by Ipsos Strategic Marketing between September 10, and October 6, 2015. The survey has been implemented through direct interviews with representatives of 1.008 businesses and entrepreneurs (90% small enterprises, 8% medium and 3% large). The key results obtained through the survey are presented in the table below.

Table 3: 2011-2015 Progress in Implementation of Reforms

Significant progress	Milder progress	No progress	Exacerbation
• Payroll Taxes and benefits • Construction permitting • Business licensing • Inspection control • Enforcement of court decisions • VAT collection procedure • Corruption in the public administration • Inflation • Volatility of Exchange Rate	• Court procedures • Para-fiscal charges • Administrative procedures • Labor related legislation • Payment system • Customs and trade procedures • Openness in public procurements • Volatility of interest rates • Getting credit • Amount of collateral asked by banks • Interest rates and bank fees • Unregistered employment • Awareness about regulatory reforms	• VAT rates • Customs duty • Duration of credit approval procedure • Bank reporting requirements • Tax administration	• Using external sources of finance • Borrowing from banks • Quality of services and bank support • Excise • Volatility of real estate prices

Source: Survey of 1.000 enterprises in 2015, the Chamber of Commerce of Serbia

Given the above said, the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship and in the forthcoming period economic policy measures should be used to create more favorable conditions for the development of entrepreneurship. It is necessary to introduce laws which will enable, in the coming period, a smooth start of business, a market-oriented and fair business and incentives for entrepreneurship. Investors need greater legal certainty, more efficient and less costly administration and more efficient communication with the public administration.

RECOMMENDATIONS FOR IMPROVEMENT OF THE BUSINESS ENVIRONMENT IN SERBIA

Business environment is determined by macroeconomic policy, government institutions and infrastructure of the given country. Political stability and the rule of law also influence the quality of the business environment.

In order to improve Serbia's competitiveness it is necessary to create a business environment that stimulates development of entrepreneurship. Addressing macroeconomic problems and those relating to legislation may contribute to significant improvements of the business environment. Establishing market mechanisms and creating a positive business environment are some of the main requirements that our economy needs to fulfill on its path to the European Union.

In addition to macroeconomic stability it is necessary to implement reforms at the macroeconomic level. To that end, competition needs to be strengthened, barriers to entry and exit removed, and property rights protected, etc. To attract investors, procedure for starting a business needs to be streamlined, as well as permitting and property registration.

Streamlining of procedures and cost cutting may have a positive impact on the entrepreneurial initiative in Serbia and may help increase the number of foreign investors.

Tax system reform needs to be put in focus. The reform should not just imply a decrease of tax rates, but also a decrease in the number of procedures and costs relating to tax collection.

As corruption has been identified as one of the basic problems influencing development of business, curbing corruption should be one of the priorities. In order to reduce the level of corruption, there need to be anti-corruption agencies or bodies put in place as well as simplified administrative rules and independent judiciary.

Based on the above presented it may be concluded that a stimulating business environment requires macroeconomic stability, a stable inflation rate, stability of the financial market, production and investments oriented towards exporting activities. Introducing new laws, institutions and tools relevant for doing business, will improve the quality of the business environment and make it more enabling for business development.

STRATEGIC MANAGEMENT AS A FACTOR OF CREATING COMPETITIVE ADVANTAGE IN SERBIA

The business environment in Serbia is not sufficiently encouraging the growth and development of business. Given the dynamism and volatility of the environment, and in particular negative effects coming from the environment, strategic orientations becomes the basic condition of survival and development of enterprises in Serbia.

Strategic management is a concept which includes strategic planning and strategic action. It represents the way to reduce negative influences of the external and internal environment or rather it represents an attempt to close the gap between the demands of the environment and the capacities of the company.

Every company, regardless of its size and business activity, must be strategically oriented. All owners/managers must make numerous decisions of the strategic character when starting a business. They need to create a vision, a mission, analyze the external and internal environment, identify critical factors of success, analyze competitors, define goals, etc.

Managers are faced with a fundamental challenge to create a strategy and thus secure advantage that can be sustained in the long run. An effective strategy can be created only based on a properly conducted analysis of the external and internal environment. By environmental scanning the main trends are identified and information obtained and they are both used to identify strategic direction.

As the selected strategy needs to be adapted to the situation in which the company finds itself, strategic orientation needs to become practice of the companies in Serbia. In line with that, managers of the companies need to identify critical factors of success based on the analysis of the business environment.

Various analytical tools can be used to obtain a clear insight as to what is going on in the environment. The external environment analysis can be completed by using the following tools/concepts: SWOT analysis, "five forces" concept, strategic group analysis, benchmarking and so on. For the purpose of improvement of the quality of the internal environment analysis the following analytical tools are suggested: value chain concept, portfolio analysis, break-even-point analysis, experience curve, internal audit, and life cycle concept and so on.

In modern conditions of doing business ignoring events from the external environment, more precisely, neglecting customers and competitors, as two key stakeholders, for sure leads to business failure. Therefore, market oriented companies in their environmental analysis are focused on the two elements of the environment – customers and competitors.

- Buyers (customers) are a decisive factor of success or failure of a company. According to marketing concept the goals are achieved based on identifying and meeting the needs of customers better than competitors.
- The level of competition varies from industry to industry. In industries characterized by a high profitability, competitions may be very intense. Being informed about competitors, knowing their strengths and weaknesses is a condition for identifying an adequate competitive strategy. In order to define an adequate competitive strategy the following information about competitors must be gathered (Hanić, H. (2007):
    - Who are the main competitors?
    - How our competitors are trying to win over the market – by lower prices or better quality of their products?

- What are they more superior at?
- What main weaknesses of our competitors can we use to our advantage?

The analysis of competition within an industry deserves special attention. Depending on strengths and weaknesses of the competitors, a company may opt for offensive or defensive moves. Offensive moves represent an attempt of an organization to strengthen its position by attacking the position of its competitors (Coulter, M. 2010). On the other hand, defensive moves represent an attempt of an organization to protect its position from its competitors. The purpose of defensive moves is not to strengthen but to sustain the acquired competitive advantage.

Based on the above said it may be concluded that companies in Serbia may improve their competitive position if they think and act strategically. Strategic orientation implies also a proactive attitude of a company towards events in the environment. Being aware of the events in the environment is the main condition for identifying an adequate competitive strategy.

CONCLUSION

Strategic management implies a continuous process in which the company is adapting to volatile and demanding environment. Business environment is exerting a permanent influence on a company and the company itself also influences the environment in which it exists and to which it adapts.

Strategic management is a process, in which one analyses current situation, formulates appropriate strategies, implements those strategies and evaluates, modifies or changes them as the need arises. These activities are usually called situational analysis, strategy formulation, strategy implementation and strategy evaluation.

Given the reasons of its creation, the content and the level to which it pertains, it may be argued that strategic management represents a backbone of doing business in a turbulent environment, as it includes making decisions about the mission, goals, direction and the manner of their attainment, resource allocation and creating a relevant support system.

The environment of a company consists of numerous elements (individuals and organizations) and factors (economical, demographic, socio-cultural, political-legal and technological). A situational analysis enables identifying elements that influence how a company is doing business and based on the results of the analysis strategic directions of the company are defined.

Beginning with the goals, hypothesis and the subject of the research the following conclusions may be drawn in this paper:

- In modern conditions of doing business every company, regardless of its size or activity, must be strategically oriented. Strategic orientation, amongst other things, implies a proactive attitude of the company towards the events in its environment. Information that the company gathers by scanning the environment and through market research are the basis for identifying the strategy and competitive advantage.

- Situational analysis enables better quality planning and decision-making. As the vision, mission and the goals of the company must be aligned with the potentials of the organization and attainable in the business environment; situational analysis represents the basis for their creation.
- Competitive advantage is the main goal of a market oriented company. Due to turbulent and uncertain conditions of doing business such advantage is difficult to achieve and even more difficult to sustain. There are no universal strategic solutions to creating advantage, that is, the solution acceptable for all companies. A situation in which the company finds itself determines the sources and the ways to create advantage in the market.
- In the research conducted for the purpose of this paper it was concluded that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. Instability of the business environment puts in focus the managerial capacities of the company, or rather, the ability of its managers to timely identify critical factors of business success. In dynamic and very unstable conditions of doing business strategic orientation, or, strategic way of thinking and acting appear as the basic need of the companies in Serbia.

Based on the previous observation it may be concluded that strategic orientation, or, a proactive attitude of a company towards its environment is one of the basic requisites in creating strategic goals and strategies, or, creating sustainable competitive advantage.

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